Highlights of the Third Quarter of 2005

Documents Issued
1. FASB Exposure Draft, Accounting for Certain Hybrid Financial Instruments (August 11, 2005). The deadline for comments is October 10, 2005.
4. FASB Revised Exposure Draft, Earnings per Share (September 30, 2005). The deadline for comments is November 30, 2005.
5. Proposed Interpretation, Accounting for Uncertain Tax Positions, was issued on July 14, 2005. The deadline for comments was September 12, 2005.

FASB Staff Positions (FSPs) Issued
5. Proposed FSP FAS 13-b, “Accounting for Rental Costs Incurred during a Construction Period” (July 19, 2005). Comments were requested by August 18, 2005.
6. Proposed FSP FAS 123(R)-b, “Practical Exception to the Application of Grant Date as Defined in FASB Statement No. 123(R)” (September 16, 2005). Comments were requested by October 1, 2005.
7. Proposed FSP FAS 123(R)-c, “Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards” (September 23, 2005). Comments were requested by October 8, 2005.
8. Proposed FSP FAS 140-c, “Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140” (July 21, 2005). Comments were requested by August 22, 2005.
9. Proposed FSP FIN 46(R)-c, “Determining the Variability to Be Considered In Applying FASB Interpretation No. 46(R)” (September 29, 2005). Comments are requested by November 30, 2005.

Projects Added to the Board’s Agenda
Subsequent Events. At its August 17, 2005 meeting, the Board added a project to its agenda to establish general standards of accounting for and the reporting of events that occur subsequent to the balance sheet date. The Board decided not to undertake a fundamental reexamination of this area. Rather, it plans to develop standards of accounting and reporting that reflect the principles that underpin existing accounting and auditing standards that address subsequent events. (See page 8 for additional information on this project.)

Grant Dates. At its September 14, 2005 meeting, the Board added a project to its agenda to address issues related to the practical exception to the application of grant date as defined in FASB Statement No. 123 (revised 2004), Share-Based Payment. The Board decided that guidance would be in the form of an FASB Staff Position.

Transition for the Tax Effects of Share-Based Payment Awards. At its September 21, 2005 meeting, the Board added a project to its agenda to address issues related to the transition alternative for determining the APIC pool from the date of adoption of Statement 123(R) back to the effective date of the original Statement 123. The Board decided that guidance would be in the form of an FSP.

Nontraditional Loan Products. At its September 21, 2005 meeting, the Board added a project to its agenda to provide disclosure...
# Board Projects as of October 1, 2005

## Conceptual Framework Project—Joint FASB/IASB Projects: (page 3)

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### Objectives and Qualitative Characteristics (Phase A)

- Elements, Recognition, Measurement Attributes (Phase B)
- Reporting Entity (Phase D)

### Major Standards Projects—Joint FASB/IASB Projects:

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### Short-Term International Convergence:

- Earnings per Share (Phase 6)
- Income Taxes (Phase 7)
- Research and Development (Phase 7)

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### Other Technical Activities:

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1. The Board has not yet decided whether the initial due process document will be in the form of an Exposure Draft or a Preliminary Views.


3. The timing of the final document is dependent on the issuance of similar documents by the PCAOB and AICPA.

**Codes:**
- C - Comment Period
- E - Exposure Document
- F - Final Document
- I - Initial Due Process Document
- PV - Preliminary Views
- R - Roundtable
CONCEPTUAL FRAMEWORK PROJECT—JOINT FASB/IASB PROJECT

Objective. The FASB’s and IASB’s objective in undertaking this joint project is to develop a common conceptual framework that is both complete and internally consistent. Such a framework would provide a sound foundation for developing future accounting standards and is essential to fulfilling the Board’s goal of developing standards that are principles-based, internally consistent, and internationally converged and that lead to financial reporting that provides the information needed for investment, credit, and similar decisions.

Conduct of the project. The FASB and the IASB plan to achieve their objective by building on their existing frameworks—refining, updating, completing, and converging them into a common framework. The common framework will deal with a wide range of issues, and the plan is to conduct the project in eight phases. Each of the first seven phases will begin with planning, research, and initial deliberations on a major aspect of the frameworks, resulting in an initial document that seeks comments on the tentative conclusions for that phase. The FASB and the IASB will then redeliberate those tentative conclusions in the light of constituents’ comments. In the final phase, both Boards will address any remaining issues and develop an Exposure Draft of the entire proposed common framework for further public comment and redeliberations leading to the issuance of the completed framework.

Plans for the next six months. The Board plans to deliberate issues in the following three separate phases of the project:

Phase A—Objectives and Qualitative Characteristics

At their October joint meeting, the FASB and the IASB plan to begin discussions of a draft of a due process document that will summarize the tentative decisions reached relating to the objectives of financial statements and financial reporting by business entities and qualitative characteristics of accounting information. During the fourth quarter of 2005, they plan to discuss any additional issues relating to that document, including the form of that document (for example, Preliminary Views, Tentative Conclusions, Milestone Draft, or Exposure Draft) and the comment period.

Phase B—Elements, Recognition, and Definition of Measurement Attributes

Beginning in the fourth quarter, the Board expects to begin work on the definitions of elements (assets, liabilities, revenues, expenses, and others), concepts for recognizing and derecognizing items that meet the definition of an element, and clarifying the possible attributes for measuring recognized items. That will involve reconsideration of concepts in FASB Concepts Statements No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, and No. 6, Elements of Financial Statements, and the IASB Framework for the Preparation and Presentation of Financial Statements. This phase may result in revisions to the existing definitions of elements, concepts for recognizing (derecognizing) them, and the definitions of attributes for measuring them.

The FASB currently is seeking comments from constituents on matters relating to the role of probability and uncertainty in defining, recognizing, and measuring assets and liabilities. The related issues are discussed in the September 2005 FASB Invitation to Comment, Selected Issues Relating to Assets and Liabilities with Uncertainties. The feedback received will assist in analyzing fundamental issues to be addressed in this phase. The due date for comments is January 3, 2006. The IASB also is

Continued on page 4>
CONCEPTUAL FRAMEWORK PROJECT—JOINT FASB/IASB PROJECT

(continued from page 3)

Phase D—Reporting Entity
The Board also will begin considering the concept of the reporting entity in the fourth quarter of 2005. The present FASB framework lacks a concept of the reporting entity, and the present IASB Framework discusses it only briefly. The Board asked the staff to accelerate the initial research for this phase, in part, to allow them to focus on aspects of the reporting entity concept that have ramifications for matters being considered in Phase B.

Expected timing of due process documents. The Board plans to issue a due process document seeking comments on the tentative decisions reached on the objectives of financial statements and financial reporting by business entities and qualitative characteristics of accounting information (Phase A) in the first quarter of 2006. Based on current plans, an initial document for Phase B may be ready for issuance in the fourth quarter of 2006 or early 2007.

MAJOR STANDARDS PROJECTS—JOINT FASB/IASB PROJECTS

Business Combinations: Applying the Acquisition Method and Noncontrolling Interests

Applying the Acquisition Method

Objective. This project is the second phase of the FASB’s overall project on business combinations. The Board’s goal for this project is to revise the existing guidance on the application of the acquisition method in ways that will improve the completeness, relevance, and comparability of financial information about business combinations that is reported in financial statements. Those improvements will be achieved by:

1. Eliminating existing inconsistencies in the guidance for measuring assets acquired and liabilities assumed in a business combination
2. Providing guidance for determining the assets and liabilities that should be recognized in the initial accounting for the business combination (such as liabilities associated with contingent consideration arrangements and planned exit activities)
3. Determining whether a transaction or event other than a purchase of net assets or equity interests that results in a reporting entity obtaining control over a business should be accounted for by the acquisition method
4. Undertaking the project jointly with the IASB with the goal of developing a single high-quality accounting standard that could be used for both cross-border and domestic financial reporting.

Noncontrolling Interests

Objective. This project relates to both the Board’s project on business combinations and its project on Financial Instruments: Liabilities and Equity (see page 5). The Board’s objective is to improve the comparability and representational faithfulness of financial information by establishing standards that clarify:

1. The classification of noncontrolling (minority) interests in consolidated statements of financial position and
2. The accounting for and reporting of transactions between the parent and holders of such noncontrolling interests.

The FASB and the IASB decided to address those issues concurrently through deliberations led by the business combinations team. Certain Board decisions reached in this project affirm or modify tentative conclusions that the Board proposed and exposed for comment in its October 2000 Exposure Draft, Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both.

Plans for the next six months. The due date for comments on the June 2005 Exposure Drafts on business combinations and noncontrolling interests is October 28, 2005. The IASB and FASB plan to:

1. Discuss the proposed standards with interested constituents at public roundtable meetings to be held in Norwalk, Connecticut on October 27, 2005 and in London, England on November 9, 2005
2. Analyze comment letters and develop a plan for redeliberations
3. Begin substantive redeliberations of the proposed Statements.

Expected timing of due process document. The Board’s current goal is to issue final Statements on business combinations and noncontrolling interests in the fourth quarter of 2006. The Board will assess the reasonableness of that goal when it considers the plan for redeliberations.
**Financial Instruments: Liabilities and Equity**

**Objective.** This project is one part of the Board’s broader initiative to improve the accounting for financial instruments. The objective is to develop a comprehensive standard of accounting for and reporting of financial instruments with characteristics of equity and of liabilities, assets, or both. Such a standard will improve financial reporting by providing a more complete and representationally faithful depiction of those financial instruments in the statement of financial position. The improved classification, measurement, and presentation guidance provided by the standard, when combined with required disclosures in notes to financial statements, is intended to provide users of financial statements with decision-useful information about an entity’s obligation to transfer assets or issue shares.

Consistent with the FASB’s broader convergence goals, the Board plans to use this project to further convergence with accounting standards developed by the IASB. The FASB and the IASB are conducting this project under a “modified joint approach.” Under that approach, the FASB will issue for comment a Preliminary Views containing the Board’s tentative conclusions. The IASB plans to concurrently issue that document for comment by its constituents. The FASB and the IASB will use the input received on those initial due process documents as the basis for a joint project to develop a common standard of accounting and reporting. In that joint project, the two Boards would jointly develop a proposed statement of financial accounting and reporting, to be followed by joint redeliberations and development of a common final Statement.

**Plans for the next six months.** The Board plans to consider issues in the second project milestone, which include:

1. The accounting for multiple component instruments. In particular, the Board plans to continue its consideration of the “obligation first” approach for measurement of debt components that would be separated under the Board’s separation criteria. The obligation first approach will be compared to other possible classification and measurement approaches.

2. Whether to establish criteria for linking related instruments and, if so, develop such criteria.

3. Whether and, if so, how to distinguish substantive from nonsubstantive or remote features of instruments.

After the Board forms tentative conclusions on those issues, the Board will consider whether to propose changes to the elements’ definitions in Concepts Statement 6, for consideration in the broader context of its conceptual framework project (see page 3).

**Expected timing of due process document.** The Board expects to issue a Preliminary Views in the fourth quarter of 2006. The Preliminary Views will combine the decisions described in the July 2005 Milestone Draft, Proposed Classification for Single-Component Financial Instruments and Certain Other Instruments, with the decisions reached in the second project milestone.

**Financial Performance Reporting by Business Entities**

**Objective.** The objective of this joint project with the IASB is to establish standards for the presentation of information in financial statements that improves the usefulness of that information in assessing the financial performance of a business entity. Those standards will address:

1. What makes up a complete set of financial statements

2. Whether to require presentation of comparative financial information

3. How financial information should be classified, aggregated, and displayed on the face of the basic financial statements (for both interim and annual periods).

This project will not address management’s discussion and analysis, the reporting of so-called pro forma earnings in press releases, or other communications outside the financial statements. Nor will this project include reconsideration of the current requirements relating to the disclosure of segment information.

This project is being conducted in three phases (segments). Segment A will address the first two project objectives relating to required financial statements and reporting of comparative information; Segment B will address classification, aggregation, and display on the face of the required financial statements; and Segment C will address issues related to reporting on interim periods.

**Plans for the next six months.** The Board plans to complete deliberation of issues in Segment A and publish an Exposure Draft of those decisions for public comment. Additionally, the Board plans to commence work on issues in Segment B, such as:

1. Whether to require a financing category within the statement of comprehensive income and, if so, how that category might be defined

2. Whether the statement of comprehensive income should include other categories, such as operating activities and investing activities

3. Whether certain revenues, expenses, gains, and losses should be presented as separate line items on the face of the statement of comprehensive income.

*Continued on page 6*
**Financial Performance Reporting by Business Entities**
(continued from page 5)

The FASB and the IASB plan to hold a meeting of the working group that supports this project in early 2006 to obtain input on those issues.

**Expected timing of due process document.** The Board plans to issue an Exposure Draft on decisions reached in Segment A of the project in the fourth quarter of 2005. The expected issuance date for a final Statement has not yet been determined because it depends on the length of the comment period and the time needed for redeliberations.

**Revenue Recognition/Liability Extinguishment**

**Objective.** The objective of this project is to develop coherent conceptual guidance for revenue recognition and a comprehensive Statement on revenue recognition that would be based on those concepts. In particular, the project is intended to improve financial reporting by:

1. Eliminating inconsistencies in the existing conceptual guidance on revenues in certain FASB Concepts Statements
2. Providing conceptual guidance that would be useful in addressing revenue recognition issues that may arise in the future
3. Eliminating inconsistencies in the existing standards-level authoritative literature and accepted practices
4. Filling voids that have emerged in revenue recognition guidance in recent years

Concurrent with the goal of improving the quality of financial reporting in the United States, the FASB is also seeking to promote the international convergence of accounting standards by conducting this project jointly with the IASB.

The comprehensive Statement that will result from this project is initially planned to apply to business entities generally; however, the FASB may conclude that certain transactions or industries requiring additional study should be excluded from the scope of the initial standards-level guidance and addressed separately.

**Plans for the next six months.** The Board plans to continue discussion of issues relating to development of standards for revenue recognition based on recognized changes in assets and liabilities that use an allocation of the customer consideration amount in measurement. Particular issues planned for consideration include:

1. How to identify units of account in multiple element revenue arrangements and the measurement of those individual performance obligations based on an allocation of the customer consideration amount. Specifically, the Board intends to consider further the proposed criteria used to identify separate units of account and the proposed guidance for measuring them by applying them to different types of revenue transactions, including long-term construction contracts.
2. When and how to account for customer consideration received or to be received.
3. Defining revenues to more clearly distinguish between transactions giving rise to revenues and those giving rise to gains.
4. When and how to recognize and derecognize assets and liabilities arising from fully-executory contracts with customers. As part of this issue, the Board also will consider how to account for onerous revenue contracts.
5. Financial statement disclosure objectives for revenues.

**Expected timing of due process document.** The Board’s goal is to issue a Preliminary Views in the third quarter of 2006.

**Short-Term International Convergence**

**Objective.** In October 2002, the IASB and FASB mutually agreed to undertake efforts to reduce or eliminate certain narrow differences between U.S. GAAP and International Financial Reporting Standards (IFRS). Those differences, while not necessarily important issues for either Board individually, can be major irritants to those using, preparing, auditing, or regulating cross-border financial reporting.

The overall objective of the short-term convergence effort is to improve financial reporting in the United States while concurrently eliminating a variety of individual differences between U.S. GAAP and IFRS. Projects falling under the heading of “short-term convergence” are limited to those that would address differences outside the scope of a major project for which convergence around a high-quality solution appears to be achievable in the short-term, usually by selecting between existing IFRS and U.S. GAAP.

The IASB and the FASB plan to accomplish their overall short-term convergence objective through a series of narrowly scoped projects. As of October 1, 2005, those narrowly scoped projects in process include a project to eliminate certain differences in reporting earnings per share and a project to address certain differences in the accounting for income taxes. The FASB staff also is evaluating whether the Board should undertake a project to address certain differences in the accounting for research and development.

**Earnings per Share**

The Board seeks to improve the reporting of earnings per share, while eliminating differences between U.S. GAAP and comparable IFRS. Specific differences to be addressed include the computation of
incremental shares under the treasury stock method, the earnings per share effect of mandatorily convertible securities, and the earnings per share effect of instruments that may be settled in cash or shares. The Board issued a revised FASB Exposure Draft, Earnings per Share, on September 30, 2005, with a comment period of 60 days.

**Plans for the next six months and expected timing of due process document.** The deadline for comments on the revised Exposure Draft is November 30, 2005. The Board expects to commence redeliberations with a goal of issuing a final Statement during the first quarter of 2006.

**Income Taxes**

The objective of this short-term convergence project is to improve the accounting for income taxes while reducing the existing differences between FASB Statement No. 109, Accounting for Income Taxes, and IAS 12, Income Taxes. Statement 109 and IAS 12 are based on similar principles, but there are differences in the standards that produce noncomparability in the financial information reported internationally. The FASB and the IASB are jointly deliberating the issues in this project.

**Plans for the next six months and expected timing of due process document.** The Board plans to complete deliberations in the fourth quarter, focusing on the remaining issues including disclosure requirements, effective date, and transition. The FASB and the IASB plan to issue separate Exposure Drafts in the first quarter of 2006. The expected issuance date for a final Statement has not yet been determined because it depends on the length of the comment period and the time needed for redeliberations.

**Research and Development**

This potential short-term convergence project is currently in the staff research phase. The staff research consists of identifying existing differences between U.S. GAAP and IFRS relating to the accounting for research and development and evaluating the feasibility of one or more narrowly scoped projects that would improve financial reporting in the United States while eliminating differences between U.S. GAAP and IFRS. This work will include a review of 20-F filings by foreign private issuers who are applying IAS 38, Intangible Assets (revised March 2004), for the first time. At the same time, the IASB staff is conducting research aimed at determining whether IAS 38 could be improved by incorporating aspects of U.S. GAAP, in particular, aspects of FASB Statement No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.

**Plans for the next six months and expected timing of due process document.** The staff will continue its research. The Board’s plan is to decide whether to proceed with one or more narrowly scoped projects in the second half of 2006.

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**MAJOR STANDARDS PROJECTS—FASB-ONLY PROJECTS**

**Combinations of Not-for-Profit Organizations**

**Objective.** This project is another phase of the Board’s overall project on business combinations. The Board’s objective is to develop standards of accounting and reporting for the acquisition of another entity by a not-for-profit (NFP) organization. In developing that standard, the Board expects to improve the completeness, relevance, and comparability of financial information about such acquisitions reported in the financial statements of NFP organizations. For example, the Board plans to address the perceived noncomparability that results from existing accounting standards that permit economically similar combinations to be accounted for using different methods (pooling-of-interests method or purchase method) that produce dramatically different financial information. In addition, this project will provide guidance that assists NFP organizations in the application of FASB Statement No. 142, Goodwill and Other Intangible Assets, and the proposed Statement on accounting and reporting of noncontrolling interests in consolidated subsidiaries.

At the inception of this project, the Board affirmed its longstanding view that similar transactions and circumstances should be accounted for similarly. The Board concluded that acquisitions by NFP organizations are similar in many respects to acquisitions made by business entities. Thus, the overall approach in this project is to presume that the standards in Statement 141 (as they would be amended by the Business Combinations: Purchase Method Procedures project), should be applied in accounting for acquisitions by NFP organizations unless a difference is identified that justifies a different accounting treatment.

**Plans for the next six months and expected timing of due process document.** The Board plans to complete its deliberations in the fourth quarter of 2005. The Board plans to post a working draft of the proposed Statement to the FASB website as a replacement of the summary of decisions reached. The Board does not plan to formally seek comments on the working draft. However, the Board will consider any comments on the working draft otherwise provided by interested parties. The Board plans to issue an Exposure Draft for public comment in the first quarter of 2006. The timing of the issuance of a final Statement for this project cannot be estimated at this time, because it depends on the length of the comment period, the duration of redeliberations, and the duration of redeliberations in the Board’s related project on Business Combinations: Applying the Acquisition Method.
Fair Value Measurements

Objective. The overall objective of this project is to define fair value and establish a framework for measuring fair value under other accounting pronouncements that require fair value measurements, thereby improving the consistency and comparability of the fair value measurements in reported financial information. Related objectives are to expand and improve the disclosures about fair value measurements required in the notes to financial statements and, where applicable, codify the related guidance in other accounting pronouncements. The Statement that results from this project will not require any new fair value measurements—the Board will continue to make that decision on a project-by-project basis.

Plans for the next six months and expected timing of due process document. The Board expects to issue a final Statement late in the fourth quarter of 2005. Before finalizing the Statement, the Board plans to post a working draft of the standards section of the Statement to the FASB website for a 30-day period, concurrent with a proposed FASB Staff Position relating to EITF Issue 02-3, “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities.” The working draft will replace the “summary of decisions reached” section in the fair value project update. The Board believes that a working draft will more effectively communicate the decisions reached. The Board does not plan to formally seek comments on the working draft. However, the Board will consider comments on the working draft otherwise provided by interested parties.

Subsequent Events

Objective. The Board’s objective in undertaking this project is to issue a general standard on accounting for, and reporting of, events that occur subsequent to the balance sheet date. That standard would reflect the principles underpinning the existing accounting and auditing standards that address subsequent events. The Board decided that a related objective is to eliminate or minimize differences between U.S. GAAP and the corresponding international financial reporting standard, IAS 10, Events after the Balance Sheet Date, except for the following differences that will be addressed in their joint project on reporting financial performance:

1. Refinancing of short-term obligations
2. Curing breaches of borrowing covenants
3. Going concern issues.

Plans for the next six months. The Board plans to discuss a comprehensive draft of a proposed Statement and a related staff analysis of the following principle issues:

1. The date through which subsequent events are considered for adjustment to or disclosure in the financial statements
2. How to deal with subsequent events on the reissuance of previously issued financial statements.


TECHNICAL APPLICATION AND IMPLEMENTATION PROJECTS


FASB Exposure Drafts, Accounting for Transfers of Financial Assets, and Accounting for Servicing of Financial Assets, which amend Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, were issued on August 11, 2005 along with FASB Exposure Draft, Accounting for Certain Hybrid Financial Instruments, which amends both Statement 140 and FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities.

Accounting for Transfers of Financial Assets

The objective of this project is to simplify and clarify the existing guidance in Statement 140 and to address application issues that have arisen since Statement 140 was issued. The August 2005 Exposure Draft proposes to:

1. Specify the conditions under which a qualifying special-purpose entity (SPE) is permitted to issue beneficial interests with maturities that are shorter than the maturities of the assets held by the qualifying SPE and roll over those beneficial interests at maturity
2. Clarify the conditions required for isolation of transferred financial assets
3. Clarify the circumstances under which assets must be transferred via a qualifying SPE in order to account for the transfer as a sale
4. Amend the provisions related to the initial measurement of transferor’s interests
5. Remove the prohibition on a qualifying SPE’s ability to hold passive derivative financial instruments that pertain to transferor’s beneficial interests in the transferred financial assets of the qualifying SPE

6. Amend the provisions related to the permitted assets of a qualifying SPE

7. Address other issues related to transfers of financial assets that arise during redeliberations of the amendment of Statement 140.

**Accounting for Servicing of Financial Assets**

The objective of this project is to simplify the accounting guidance related to servicing of financial assets. The August 2005 Exposure Draft proposes to amend Statement 140 with respect to accounting for separately recognized servicing rights. It would:

1. Require all separately recognized servicing rights to be initially measured at fair value, if practicable.

2. Permit, for each class of separately recognized servicing assets and liabilities, an entity to choose either of the following subsequent measurement methods:
   a. Amortize servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss. This method, which is currently required by Statement 140, would continue to require an assessment of servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date.
   b. Report servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur.

3. Require additional disclosures for all separately recognized servicing rights.

**Hybrid Financial Instruments**

In January 2004, the Board added a project to its agenda to resolve the issues that led to the interim FASB staff guidance that beneficial interests in securitized financial assets are not subject to the provisions of Statement 133. That interim guidance is reflected in Statement 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets” (Implementation Issue D1). The Board believes that it is inappropriate to maintain the interim guidance in Implementation Issue D1 that conflicts with the fundamental conclusions of Statement 133 and was not expected to be permanent when it was issued in June 2000. The Board acknowledges that this project could involve amending or providing interpretative guidance on Statement 133 and potentially one or more of the provisions of Statement 140.

The August 2005 Exposure Draft proposes to:

1. Permit fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation

2. Clarify which interest-only strips and principal-only strips are not subject to the requirements of Statement 133

3. Establish a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation

4. Clarify that concentrations of credit risk in the form of subordination are not embedded derivatives

5. Eliminate restrictions on a qualifying special-purpose entity’s ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument.

**Plans for the next six months and expected timing of due process documents.** The comment period for the Exposure Drafts ends on October 10, 2005. During the fourth quarter of 2005, the Board will redeliberate issues that arise during the comment period. Following deliberations of those issues the staff will proceed in drafting amendments to Statements 140 and 133. The Board expects to issue final Statements in the first quarter of 2006.

Although the decisions reached in each project are being exposed separately, it is expected that the final Statement amending Statement 140 will include the Board decisions for at least two if not all three projects as they relate to Statement 140.

**Fair Value Option**

**Objective.** In this project, the Board is considering whether to permit entities a one-time election to report certain financial instruments (and perhaps similar nonfinancial instruments) at fair value with the changes in fair value included in earnings. The fundamental objectives of this project are as follows:

1. To mitigate problems in determining reported earnings caused by the mixed-attribute model (that is, problems related to some assets or liabilities being reported at the fair value measurement attribute, but other related liabilities and assets being reported at another measurement attribute, such as amortized cost)

2. To enable entities to achieve an offset accounting effect for the changes in the fair values of related assets and liabilities without having to apply more complex hedge accounting provisions, thereby providing some potential simplicity in the application of the accounting guidance for this area

Continued on page 10>
**Fair Value Option**

(continued from page 9)

3. To achieve further convergence with the IASB, which has incorporated a fair value option for financial instruments in its IAS 39, *Financial Instruments: Recognition and Measurement*

4. To expand the use of the fair value measurement attribute, particularly for financial instruments.

In previous deliberations, the Board confirmed that the project will focus only on the use of the fair value measurement attribute. The Board rejected a suggestion to expand this project to permit entities to elect to recognize in earnings the change in an asset’s or liability’s fair value *attributable to only certain selected risks* (rather than the total change in fair value). The Board supported only a few limited-scope exceptions.

**Plans for the next six months.** The Board plans to discuss remaining issues, including:

1. Whether to curtail the debtor’s recognizing in earnings the effect of changes in its own creditworthiness in reporting its liabilities at fair value when the fair value option has been elected

2. What nonfinancial instruments, if any, should be included in the potential election of the fair value option

3. Whether an entity may elect to apply the fair value option to firm commitments that would otherwise not be recognized in the financial statements under current GAAP

4. Whether nonpublic entities that have elected the exception in FASB Statement No. 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, from having to disclose fair values under FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, should be eligible to elect the fair value option

5. Whether there should be a scope exception for liabilities for income taxes (both current and deferred)

6. What disclosures should be required to compensate for the lack of comparability created by the fair value option

7. What guidance, if any, should be provided about how reported interest is determined for receivables and payables reported at fair value under the fair value option

8. Effective date and transition provisions.

**Expected timing of due process document.** The Board expects to issue an Exposure Draft in the first quarter of 2006.

**Amendment of Statements 87 and 35**

**Objective.** The objective of this project is to provide measurement guidance for “cash balance” pension plan obligations that are not specifically addressed in FASB Statement No. 87, *Employers’ Accounting for Pensions*, and all other defined benefit plans that provide plan participants with a lump-sum benefit feature at the date of separation from employment. The typical provisions of defined benefit plans have evolved since the issuance of Statement 87 to include features that were not contemplated when that Statement was issued. The project is expected to improve financial reporting by providing guidance to ensure the application of Statement 87 is consistent with the original objectives of that Statement.

**Plans for the next six months and expected timing of due process document.** The Board intends to address whether to proceed with this project separately, or whether the issues being addressed in this project should be included in an agenda request for a broader pension project, expected to be discussed by the Board in the fourth quarter. (See *Pension and Other Postretirement Benefits* on page 15.)

**Uncertain Tax Positions**

**Objective.** The objective of this project is to clarify the criteria for recognition of tax benefits in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This project seeks to clarify what criteria must be met prior to recognition of the financial statement benefit of a position taken in a tax return.

This project will result in more consistency in the reported amounts of income tax expense, and current and deferred tax assets and liabilities. A proposed Interpretation was issued in July 2005.

The proposed Interpretation would:

1. Presume that a tax position will be evaluated during an audit by a taxing authority

2. Require a probable assessment of being sustained on audit for a tax benefit to be recorded (based on technical merits of positions)

3. Use the best estimate of the tax benefit as the measurement attribute of the tax benefit

4. Require derecognition of the tax benefit in the period in which it is more likely than not that the tax benefit will not be sustained

5. Address balance sheet classification, accrual of interest and penalties, accounting in interim periods, disclosure, and transition.

**Plans for the next six months and expected timing of due process document.** Comments on the proposed Interpretation were requested by September 12, 2005. The Board plans to hold a roundtable discussion on October 10, 2005. The
Board will begin its redeliberations of the issues addressed in the comment letters and roundtable. Also, at the October joint meeting, the IASB and the FASB will discuss this project. The Board plans to issue a final Interpretation in the first quarter of 2006.

**Derivatives Disclosures**

**Objective.** The objective of this project is to provide guidance on enhanced disclosure requirements and balance sheet and income statement display of derivatives accounted for in accordance with Statement 133. Additionally, the project is expected to consider the relevance and applicability of the existing disclosure requirements in Statement 133.

**Plans for the next six months and expected timing of due process document.** The Board will establish disclosure objectives for this project and then deliberate enhanced disclosure requirements and financial statement presentation and classification. The Board expects to issue an Exposure Draft in the second quarter of 2006.

**Insurance Risk Transfer**

**Objective.** The objective of this project is to clarify what constitutes transfer of significant insurance risk in insurance and reinsurance contracts first by defining insurance contracts and related terms. Simple approaches to bifurcation of insurance contracts that include both insurance and financing elements also will be explored. The project is intended to improve the representational faithfulness of accounting for insurance and reinsurance contracts by more clearly defining which contracts or portions thereof should be accounted for as insurance and which should be accounted for as deposits (financings). The resulting increased transparency in accounting and reporting by insurers should help users of financial statements better understand the economic impact of those contracts.

**Plans for the next six months.** In the fourth quarter the Board will discuss possible bifurcation of insurance contracts into components that transfer risk and those that do not. In addition, other aspects of current risk transfer guidance will be reviewed, including:

1. Application to insurance contracts of the risk transfer conditions for reinsurance included in FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*
2. Editorial changes to Statement 113 to clarify the guidance on risk transfer
3. Enhanced disclosures concerning contracts with risk limiting features.

**Expected timing of due process document.** The Board plans to issue an Exposure Draft late in the first quarter of 2006 with a final standard expected in the third quarter of 2006.

**Potential FASB Staff Positions and Other Activities**

**Leveraged Leases.** Proposed FSP FAS 13-a, “Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction,” addresses accounting for changes in timing of the realization of tax benefits from a leveraged lease. The FSP will amend FASB Statement No. 13, *Accounting for Leases*, and require a lessor of a leveraged lease to (1) perform a recalculation of the lease and (2) reevaluate the classification of the lease when there is a change in the timing of the realization of tax benefits directly associated with that leveraged lease.

The comment period for the proposed FSP ended on September 12, 2005. The final FSP is expected to be issued in the fourth quarter of 2005.

**Stable Value Investments.** Proposed FSP AAG INV-a, “Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide,” describes the limited circumstances in which the net assets of an investment company should reflect the contract value of fully benefit-responsive investment contracts that it holds and provide a definition of a fully benefit-responsive investment contract. This FSP also provides guidance with respect to the financial statement presentation and disclosure of fully benefit-responsive investment contracts.

The guidance in this FSP is applicable to investment companies subject to the AICPA Audit and Accounting Guide, *Investment Companies*, established under a trust whereby the trust itself must be adopted as part of one or more qualified employer sponsored defined-contribution plans (including both health and welfare benefit plans or pension plans). This FSP also amends the guidance in AICPA Statement of Position 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined- Contribution Pension Plans*, with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts.

The comment period for the proposed FSP ended on September 19, 2005. The final FSP is expected to be issued in the fourth quarter of 2005.

**Life Settlements.** Proposed FSP TB 85-4-a, “Accounting for Life Settlement Contracts by Investors,” addresses accounting guidance for an investment in life settlements (which includes viatical). A life settlement for the purposes of this project is a transaction between the owner of a life insurance contract and a...
Potential FASB Staff Positions and Other Activities (continued from page 11)

third party, where the third party does not have an insurable interest (an interest in the survival of the insured, which is required to support the issuance of an insurance policy) in the life of the insured and intends to continue paying the premiums on the insured’s life insurance policy. The scope of the FSP would include brokered settlement transactions whereby a broker facilitates settlement transactions between insureds and life settlement providers. Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance, requires a purchaser of a life insurance contract to expense the excess of the amount paid to acquire a contract over the cash surrender value of the policy. The proposed FSP would require buyers of life settlements to record an asset for the amount(s) paid to acquire the contract, including premium payments, as long as that amount does not exceed the face amount of the policy.

The comment period for the proposed FSP ended on August 1, 2005. The final FSP is expected to be issued in the fourth quarter of 2005.

useful life and amortization of intangible assets. This FSP will provide guidance on how the factors in subparagraph 11(d) of FASB Statement No. 142, Goodwill and Other Intangible Assets, should be evaluated in determining the useful life and amortization of intangible assets. Specifically, the proposed FSP will prescribe a model whereby:

1. At acquisition, amortization expense would be attributed to the contractual period of use and all future renewal periods based on the relative value of the discounted cash flows of each period
2. Incremental and direct costs of acquisition are capitalized and amortized over the renewal period
3. Renewable intangible assets would be subject to a fair valued based impairment test. Additionally, the notion of “material modifications” in paragraph 11(d) of Statement 142 would be replaced with the language “renewal is reasonably assured.”

The proposed FSP is expected to be issued in the fourth quarter of 2005.

Other-Than-Temporary Impairment. In September 2004, the Board issued two FSPs that address application questions on EITF Issue 03-1. Proposed FSP EITF 03-1-a, “Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1,” addresses questions about the application of paragraph 16 of Issue 03-1 to debt securities that have suffered impairments because of increases in interest rate and/or sector spreads. FSP EITF 03-1-1, “Effective Date of Paragraphs 10–20 of EITF Issue No. 03-1,” defers the effective date of paragraphs 10–20 of Issue 03-1 until proposed FSP EITF 03-1-a is finalized.

The Board received over 250 comment letters from constituents on proposed FSP EITF 03-1-a. The vast majority of those comment letters requested the Board to rescind the consensus reached in Issue 03-1. Although this issue was not one of the specific issues that the proposed FSP addressed, respondents expressed their concerns with the other-than-temporary impairment model included in Issue 03-1.

The Board decided not to provide additional guidance on the meaning of other-than-temporary impairment. The Board directed the staff to issue a final FSP, which will supersede EITF Issue 03-1 and EITF Topic No. D-44, “Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value.” The final FSP (retilted FSP FAS 115-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”) will replace the guidance set forth in paragraphs 10–18 of Issue 03-1 with references to existing other-than-temporary impairment guidance, such as FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, SEC Staff Accounting Bulletin No. 59, Accounting for Noncurrent Marketable Equity Securities, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. FSP FAS 115-1 will codify the guidance set forth in Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other than temporary, even if a decision to sell has not been made.

The final FSP is expected to be issued in October 2005 and will be effective for other-than-temporary impairment analyses conducted in periods beginning after December 15, 2005.

Minimum Revenue Guarantees. Proposed FSP FIN 45-b, “Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners,” clarifies that minimum revenue guarantees are within the scope of FASB Interpretation No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. An example of such a guarantee is a hospital’s guarantee that a nonemployee physician that was recruited to relocate to the hospital’s community will achieve a specified minimum amount of revenue from professional services during a specified period of time.

Comments on the proposed FSP were requested by August 8, 2005. The Board plans to discuss respondents’ comments on the proposed FSP at a Board meeting in October. The final FSP is expected to be issued in the fourth quarter of 2005.

Variability to Consider When Applying Interpretation 46(R). Proposed FSP FIN 46(R)-c, “Determining the Variability to Be Considered In Applying FASB Interpretation No. 46(R),” provides guidance on how a reporting enterprise should determine the variability to consider when applying Interpretation 46(R). The guidance clarifies that the variability to be considered
when applying Interpretation 46(R) should be based on the
design of the entity. After determining the variability to consider,
the reporting entity can determine which interests are designed to
absorb that variability (that is, which interests are variable
interests).

Comments on the proposed FSP are requested by November 30,
2005. The final FSP is expected to be issued in the first quarter of
2006.

Financial Guarantee Insurance. This FSP will provide guidance
on the timing of claim liability recognition specifically for financial
guarantee contracts issued by insurance companies that are not
accounted for as derivative contracts under FASB Statement No.
133, Accounting for Derivative Instruments and Hedging
Activities. A financial guarantee contract guarantees the holder of
a financial obligation the full and timely payment of principal and
interest when due and is typically issued in conjunction with
municipal bond offerings and certain structured finance
transactions. The goal of the FSP is to reduce diversity in
accounting by financial guarantee insurers, thereby enabling users
to better understand and more readily compare the insurers’
financial statements.

The Board plans to continue discussions in the fourth quarter
of 2005 and expects to issue a proposed FSP in the first quarter of
2006.

Issues Involved in Accounting for Certain Derivative Contracts.
This FSP addresses certain issues involved in accounting for a
derivative instrument within the scope of EITF Issue No. 02-3,
“Issues Involved in Accounting for Derivative Contracts Held for
Trading Purposes and Contracts Involved in Energy Trading and
Risk Management Activities,” that is measured at fair value under
FASB Statement No. 133, Accounting for Derivative Instruments
and Hedging Activities. The FSP would nullify the related FASB
staff guidance included in footnote 3 of Issue 02-3. It would not
affect any consensuses reached by the EITF in Issue 02-3. This
FSP also would amend Statement 133 Implementation Issue No.
B6, “Allocating the Basis of a Hybrid Instrument to the Host
Contract and the Embedded Derivative.”

The proposed FSP is expected to be issued in the fourth
quarter of 2005 for a 30-day comment period. The FSP would be
effective for fiscal years ending after December 15, 2006, with
earlier application encouraged if the final FASB Statement on fair
value measurements is applied at the same time.

Limits of Derivatives Held by a QSPE. Proposed FSP FAS 140-c,
“Clarification of the Application of Paragraphs 40(b) and 40(c) of
FASB Statement No. 140,” provides clarification on the
application of paragraphs 40(b) and 40(c) of Statement 140. A
qualifying special-purpose entity is permitted to enter into passive
derivative financial instruments that pertain to beneficial interests
held by parties other than the transferor and its affiliates. The
derivative financial instruments must be entered into only when
the beneficial interests are issued or when a derivative needs to be
replaced upon the occurrence of an event or circumstance outside
the control of the transferor its agents and affiliates. Paragraphs
40(b) and 40(c) state that the notional amount of those
derivatives cannot initially exceed the amount of the beneficial
interests held by parties other than the transferor and must not be
expected to exceed them subsequently. Events such as unexpected
prepayments or temporary purchases of beneficial interests by a
transferor for trading and market making purposes may cause the
notional amount of those derivatives to exceed the amount of
beneficial interests issued to parties other than the transferor after
inception. The proposed FSP clarifies the impact of those events
on the qualifying status of the special-purpose entity.

Comments on the proposed FSP were requested by August 22,
2005. A final FSP is expected to be issued in the fourth quarter of
2005.

Rental Costs. Proposed FSP FAS 13-b, “Accounting for Rental
Costs Incurred during a Construction Period,” addresses the
accounting for rental costs associated with operating leases that
are incurred during a construction period. The proposed FSP
requires that rental costs associated with ground or building
operating leases that are incurred during a construction period be
recognized as rental expense.

Comments on the proposed FSP were requested by August 18,
2005. A final FSP is expected to be issued in the fourth quarter of
2005.

Grant Dates. Proposed FSP FAS 123(R)-b, “Practical Exception
to the Application of Grant Date as Defined in FASB Statement
No. 123(R),” will provide entities with a practical exception related
to the concept of mutual understanding, which is one component
of the definition of grant date as provided in Statement 123(R). In
determining the grant date of an award subject to Statement
123(R), assuming all other criteria have been met, a mutual
understanding of the key terms and conditions of an award to
individual employees should be presumed to exist at the date the
award is approved by the Board or management with the relevant
authority, provided specified conditions have been met.

Comments on the proposed FSP were requested by October 1,
2005. The final FSP is expected to be issued in the fourth quarter of
2005.

Transition for the Tax Effects of Share-Based Payment Awards.
Proposed FSP FAS 123(R)-c, “Transition Election Related to
Accounting for the Tax Effects of Share-Based Payment Awards,” will
provide an elective alternative transition method related to
accounting for the tax effects of share-based payment awards upon
adoption of Statement 123(R). The alternative method comprises
(1) a computational component that establishes a beginning
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balance of the APIC Pool and (2) a simplified method to determine the impact on the APIC Pool of awards that are fully vested and outstanding upon the adoption of Statement 123(R).

Comments on the proposed FSP were requested by October 8, 2005. The final FSP is expected to be issued in the fourth quarter of 2005.

Nontraditional Loan Products. This proposed FSP indicates existing requirements in generally accepted accounting principles that may impact entities that originate, hold, guarantee, or service nontraditional loan products (for example, option adjustable rate mortgages).

The Board plans to issue both a proposed and final FSP in the fourth quarter of 2005.

Asset Retirement Obligations. This FSP will provide guidance on how to account for the change in the estimated fair value of an asset retirement obligation (ARO) that results from the change in foreign currency exchange rates when the ARO is denominated in a currency other than the functional currency. This FSP will address whether:

1. The change in foreign currency of the ARO should be considered a monetary liability and accounted for in accordance with paragraph 15 of FASB Statement No. 52, Foreign Currency Translation
2. The change in foreign currency is a nonmonetary liability and accounted for in accordance with paragraph 15 of FASB Statement No. 143, Accounting for Asset Retirement Obligations
3. A hybrid approach should be used when an enterprise has entered into a binding commitment to settle the obligation in a foreign currency.

The proposed FSP is expected to be issued for comment in the fourth quarter of 2005.

Entrance Fee Deposits and Deferred Revenue. This FSP will provide guidance on the balance sheet classification of the refundable portion of entrance fee deposits and the deferred revenue associated with entrance fees within the continuing care retirement community industry. Historically, those entities have presented these types of liabilities associated with the refundable portion of entrance fees as long-term liabilities and the related deferred revenue as noncurrent. This FSP will clarify whether FASB Statement No. 78, Classification of Obligations That Are Callable by the Creditor, is applicable to this type of arrangement.

The proposed FSP is expected to be issued for comment in the fourth quarter of 2005.

Statement 133 Implementation Issue: Registration Rights. This proposed Implementation Issue will address whether a registration rights agreement is a derivative. This issue was first raised as part of EITF Issue No. 05-4, “The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19.” The staff determined that the Task Force should postpone further deliberations on Issue 05-4 until after the Board addresses whether a registration rights agreement is a derivative, as this decision will affect the analysis of Issue 05-4.

The proposed Statement 133 implementation issue is expected to be issued in the fourth quarter of 2005.

RESEARCH PROJECTS

In addition to the major projects and technical application and implementation projects discussed above, the Board has research projects on its agenda. Through research projects, technical issues are studied for the purpose of developing the nature and scope of potential major projects. Current research projects are discussed below.

Accounting for Insurance Contracts

The IASB’s agenda includes an active project on accounting for insurance contracts. The IASB and the FASB agreed to approach this project using the modified joint approach. Under that approach, the IASB will issue for public comment a Discussion Paper containing its tentative decisions on the accounting for insurance contracts. The FASB plans to seek input from its constituents on the IASB’s preliminary views by issuing an Invitation to Comment containing the IASB discussion paper. The feedback received on that Invitation to Comment will be used by the Board in deciding whether to add to its agenda a joint project with the IASB to develop a comprehensive standard on accounting for insurance contracts. As of October 1, 2005, a definitive timetable for the IASB discussion paper and FASB Invitation to Comment has not been determined.

Financial Instruments

The Board has a long-term objective of establishing standards that would require reporting of all financial instruments at fair value in the financial statements. Prior to promulgating such standards, however, the Board believes that certain conceptual and practical issues relating to fair value measurements should be resolved. The Board currently has three major projects on its agenda directed toward that objective: (1) its project on Fair Value Measurements (page 8) that will address the conceptual and practical issues
relating to measurement, (2) its project on Financial Instruments: Liabilities and Equity (page 5), and (3) its project on Financial Performance Reporting by Business Entities (page 5).

At the April 22, 2005 joint meeting, the IASB and FASB decided to undertake a joint effort to resolve the following issues related to reporting financial instruments at fair value:

1. Display of changes in fair value, for example, how to present interest on a debt instrument that is classified as trading and whether to separately present the effects on fair value of changes in exchange rates, interest rates, and other factors

2. Scope and measurement issues, for example, whether and how to distinguish financial instruments from similar contracts, whether and how to measure the benefit of customer relationships established by demand deposit liabilities, and whether some types of financial instruments that are not currently recognized in financial statements should be recognized if they have non-zero fair values.

The IASB and the FASB discussed display of changes in fair value at separate meetings in September 2005, and the two Boards will discuss that issue together at their joint meeting in October 2005.

Also at the April 2005 joint meeting, the IASB and the FASB decided to undertake a joint staff research effort to develop an approach to derecognition of financial assets that would be an improvement to both IAS 39, Financial Instruments: Recognition and Measurement, and FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The two Boards also decided to consider the feasibility of developing a broader derecognition standard that would apply to all types of assets. That effort, which has not yet begun, is dependent on available staff time.

Consolidations: Policy and Procedure

The Board has on its agenda a long-term project to develop comprehensive accounting guidance on accounting for affiliations between entities, including reconsideration of ARB No. 51, Consolidated Financial Statements. The IASB also has an active project on its agenda to reconsider its guidance in this area. In April 2004, the IASB and FASB agreed that an objective of both their projects is the development of a common, high-quality standard on consolidation policy. The objective of this research project is to identify and develop plans for the next steps in achieving the Board’s long-term objectives, including plans for coordinating the activities of the FASB with those of the IASB. The Board expects to begin those staff research and planning activities in late 2005.

Share-Based Payment

The Board has on its agenda a long-term project to develop comprehensive guidance on the accounting for share-based payment arrangements. The first phase of that project, which focused primarily on the accounting for certain share-based payment transactions with employees, concluded with the December 2004 issuance of FASB Statement 123 (revised 2004), Share-Based Payment. Future phases of the project will reconsider the accounting for employee stock ownership plans in AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans, and the accounting for share-based payment transactions with nonemployees in Statement 123(R). The Board does not expect to commence this phase until it completes (or makes substantial progress toward completing) its project on Financial Instruments: Liabilities and Equity (see page 5).

Pension and Other Postretirement Benefits (Pre-agenda)

In July, the FASB staff initiated pre-agenda research related to a potential project to improve the accounting for defined benefit pension and other postretirement benefits. The purpose of that research is to analyze the issues associated with the accounting for such benefits in light of the FASB’s agenda criteria (those criteria include the pervasiveness of the issues, the feasibility of proposed solutions, convergence opportunities, and practical consequences). The Board expects to discuss the results of that staff analysis in the fourth quarter of 2005.

Leases (Pre-agenda)

In late August, the FASB staff initiated pre-agenda research related to a potential project to improve the accounting for leasing. The purpose of that research is to analyze the issues associated with the lease accounting in light of the FASB’s agenda criteria (those criteria include the pervasiveness of the issues, the feasibility of proposed solutions, convergence opportunities, and practical consequences). The Board expects to discuss the results of that staff analysis in the fourth quarter of 2005.
OTHER TECHNICAL ACTIVITIES

The FASB also is involved in other technical activities that may help to expand our understanding of financial reporting issues and may indirectly affect our formal agenda. Some of the activities currently under way are discussed below.

GAAP Hierarchy

The Board identified a number of initiatives aimed at improving the quality and transparency of standards and the standard-setting process in the July 2004 FASB Response to SEC Study on the Adoption of a Principles-Based Accounting System. In that document, the Board stated that creating two levels of literature (authoritative and nonauthoritative) and elevating the conceptual framework within the generally accepted accounting principles (GAAP) hierarchy are key elements of the Board’s goal of improving the quality of the GAAP hierarchy and, therefore, the quality and transparency of standards and the standard-setting process. The first steps toward improving the GAAP hierarchy are to move the hierarchy from the auditing literature to the accounting literature and to define the meaning of authoritative literature.

The objectives of this project are to move the GAAP hierarchy from the American Institute of Certified Public Accountant’s Statement of Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles, to FASB literature and to define the meaning of authoritative literature. This project also provides insight into the Board’s future goals associated with improving the GAAP hierarchy.

Expected timing of due process document. The Board has completed its redeliberations and expects to issue a final Statement in the fourth quarter of 2005. However, issuance of that final Statement is contingent on the issuance of similar pronouncements by the AICPA and PCAOB.

Codification

In September 2004, the Financial Accounting Foundation Trustees approved the Board’s plan to develop a U.S. GAAP Codification. The objective of the codification is to integrate and topically organize all relevant accounting guidance issued by the U.S. standard setters (FASB, AICPA, EITF, and SEC). The Board will issue the codification draft (which is not expected until 2007) to constituents for an extended verification period. The objective of the verification process is to ensure that the codification accurately reflects existing U.S. GAAP. Once the Board addresses constituent comments, the codification will become the single authoritative source of U.S. GAAP and will supersede all existing standards.

XBRL

In September 2003, the Board established an XBRL fellowship position. The XBRL Fellow is responsible for furthering XBRL awareness at the FASB and liaising with the XBRL Consortium, a group of more than 200 leading accounting, technology, and financial services companies and government agencies.

Through this fellowship, the FASB expects to be in a stronger position to track new technology developments that impact financial reporting. This, in turn, should assist the Board in advancing the financial reporting model in response to evolving technology and changing financial statement user needs.

THE EMERGING ISSUES TASK FORCE

A summary of EITF Issues and their resolutions or other status is published in an FASB loose-leaf subscription service, EITF Abstracts, which summarizes the Task Force proceedings. The service includes a summary of each Issue discussed by the Task Force and any conclusions reached, along with a comprehensive topical index.

The FASB website provides brief descriptions of recently discussed EITF Issues and other Issues currently on the agenda under the EITF section, “Description and Status of Current Issues.” In addition, Issue summaries and related attachments may be downloaded without charge from the EITF section, “Current and Prior EITF Meeting Materials and Minutes.” The minutes of EITF meetings are also available free of charge. Materials for Issues before June/July 2004 and minutes for meetings before November 2003 are available individually from the FASB Order Department at 1-800-748-0659.

EITF meeting schedule for 2006. The following meeting dates have been set for 2006:

- January 6, 2006
- March 15–16, 2006
- June 14–15, 2006
- September 6–7, 2006
guidance for entities that originate, hold, guarantee, or service nontraditional loan products (for example, option adjustable rate mortgages). The Board decided that guidance would be in the form of an FSP.

**Other**

*Conceptual Framework.* The August 31, 2005 issue of *The FASB Report* featured a paper titled, “A New Conceptual Framework Project,” written by Halsey Bullen, FASB senior project manager and Kimberley Crook, former IASB senior project manager. The paper discusses the need for a conceptual framework; how the existing frameworks of the FASB and IASB meet part, but not all, of that need; the areas of the framework the two Boards are working jointly to update and to complete; and the overall plan to achieve an improved common framework.

*Liabilities and Equity “Milestone Draft.”* The Board completed its initial deliberations on classification of single-component instruments in the first quarter of 2005. A summary of the Board’s tentative decisions prepared in a format similar to an Exposure Draft (referred to as a “Milestone Draft”) was posted to the website in July. Constituents that would like to provide feedback on that draft are welcome to do so. The Board plans to formally solicit comments on all of the tentative decisions reached in the liability and equity project by issuing a Preliminary Views in the fourth quarter of 2006. The Preliminary Views will include the Board’s tentative classification decisions for both single- and multiple-component instruments as well as its tentative decisions on related topics. (Additional information about the status and plans for this project can be found on page 5.)

**Emerging Issues Task Force (EITF)**

At its September 28, 2005 meeting, the Board ratified the consensuses reached by the Task Force at its September 15, 2005 meeting on Issues No. 04-13, “Accounting for Purchases and Sales of Inventory with the Same Counterparty,” No. 05-7, “Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues,” and No. 05-8, “Income Tax Consequences of IssuingConvertible Debt with a Beneficial Conversion Feature.”

The Board also accepted a decision by the Task Force to modify the previously reached consensus on Issue No. 05-6, “Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination,” to clarify that that consensus does not apply to preexisting leasehold improvements.

Also at the September 15, 2005 EITF meeting, the SEC staff announced certain revisions to *EITF Abstracts*, Topic No. D-98, “Classification and Measurement of Redeemable Securities.”
The FASB Report

Subscription address changes:
E-mail Barbara Diliberto, bldiliberto@f-a-f.org or fax (203) 847-6045.

The FASB welcomes feedback on The FASB Report.
Technical Plan Editor: Jane Gabriele
E-mail: jv gabriele@fasb.org
Managing Editor: Steven P. Getz
E-mail: spgetz@f-a-f.org
Write: 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116
FASB website address: www.fasb.org